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ITALY'S FINANCIAL STAKE IN ALBANIA

by

EUGENE STALEY

with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

DESPITE its unusual terms, the loan agreement concluded by Italy and Albania in the summer of 1931 occasioned relatively little comment. By this agreement, the Italian government undertook to make a series of annual advances extending over a period of ten years and totaling some twenty million dollars; no interest was to be charged, however, and no definite date was set for repayment. The new loan was another indication of the control which Italy exercises over Albania—a control which in certain respects resembles the relationship of the United States to Panama, Great Britain to Egypt, and Japan to Manchuria. Italy's interest in Albania is not primarily economic in character, for Albania is a country largely isolated from the main stream of modern economic development and has scanty resources; its predominant interest in Albania is strategic.

A glance at the map will reveal why this rugged mountain kingdom, economically unpromising as it is, is a bone of international contention. The boundaries of Albania are coterminous on three sides with those of Jugoslavia and Greece. From the Bay of Valona near the southern extremity of Albania's Adriatic coast, it is only forty-five miles across the narrow Straits of Otranto to the heel of the Italian boot. Any power which controls the southern portion of Albania has potential control over the entrance to the Adriatic sea.^{1a} Italian spokesmen argue that they must control Albania in order to prevent any other power from gaining a foothold which might weaken Italy's defense of its long, exposed coastline. Jugoslavia, for its part, regards the waxing political and military influence of Italy in Albania as a

menace, especially when it sees Italian engineers building roads and bridges capable of bringing troops to its frontiers.

Having a population of only 1,003,068 and an area of 10,629 square miles, Albania is one of the smallest countries in the world. Before 1912, Albania had been for five centuries under Turkish suzerainty, which isolated it from the outside world. Nevertheless, Albanians have always possessed considerable political talent and have produced a number of bold leaders. Albanian social organization is still based on the tribe or clan, and blood feuds—carried on according to strict rules of honor—have only recently ceased to be of common occurrence.

On the eve of the outbreak of the Balkan Wars, the Albanians rose in revolt, first winning a status of virtual autonomy and subsequently, on November 28, 1912, declaring their complete independence.² While the success of the Balkan allies—Serbia, Montenegro, Bulgaria and Greece—in the war against Turkey effectively disposed of Ottoman supremacy in Albania, it raised delicate international problems, since the victorious Allies, with one exception, coveted Albanian territory. Moreover, Austria-Hungary and Italy were united in opposing the access of a third state—particularly Serbia, Russia's protégé—to the Adriatic.³ For a time a general European war seemed imminent. Finally, the representatives of the great powers, meeting in London as the Conference of Ambassadors, resolved to set up Albania as an independent neutral kingdom. They sent an international commission to determine its boundaries, and in February 1914 placed William of Wied, a German prince, on the throne. His reign was brief, troubled from the first by internal dissensions and the jealousies of the powers, and terminated by the withdrawal of international support on the outbreak of the World War.⁴

*This report is based on material gathered by Mr. Staley, Assistant Professor of Economics at the University of Chicago, as part of a study of the rôle of private investments in international relations which he made in 1931 under the terms of a traveling fellowship from the Social Science Research Council.

1. In 1925 an international flurry was occasioned by rivalry between a number of companies over Albanian oil, but the results of prospecting for this or for other mineral resources have been disappointing.

1a. Cf. speech of May 14, 1904 of Count Tittoni, Italian Minister of Foreign Affairs, *Italy's Foreign and Commercial Policy, A Selection from the Speeches Delivered in the Italian Parliament by Senator Tommaso Tittoni*, English translation by Baron di San Severino (New York, 1915), p. 18.

2. Cf. Joseph Swire, *Albania; the Rise of a Kingdom* (London, Williams & Norgate, 1929), p. 113, 137.

3. As long ago as 1900 Austria-Hungary and Italy had secretly agreed to cooperate in maintaining the *status quo* in Albania or, if that proved impossible, to work for Albanian autonomy. (A. F. Fribar, *The Secret Treaties of Austria-Hungary*, English edition by A. C. Coolidge, Cambridge, Harvard University Press, 1920, Vol. I, p. 196.)

4. Swire, *Albania*, cited, p. 145-6.

ITALY GAINS FOOTHOLD IN ALBANIA

Early in the war Italy, while still a neutral, occupied Valona, the port of greatest strategic importance in Albania. In the secret Pact of London of May 24, 1915, the Allies promised that Italy would receive full sovereignty over Valona, the island of Sasevo, and sufficient surrounding territory to insure the defense of these points; that in case north and south Albania were divided among Montenegro, Serbia, and Greece, the coast from the south boundary of the Italian territory of Valona to Cape Stylos would be neutralized; and that Italy would be entrusted with the conduct of the foreign relations of any autonomous Albanian state which might be formed.⁵

At the close of hostilities a provisional government was created by a national assembly held in Durazzo. The efforts of an Albanian delegation at the Paris Peace Conference, as well as the Wilsonian principle of self-determination, were largely responsible for defeating plans for the partitioning of Albania.⁶ In December 1920 Albania was admitted to the League of Nations. Two years later a revolt occurred against a government in which Ahmed Bey Zogu was Minister of the Interior. Zogu quickly restored order and, forming a new cabinet, remained as Prime Minister for over two years. As a result of attacks on his policies, Zogu resigned, and during a revolution in June 1924 took refuge in Jugoslavia. The revolution was successful, and Monsignor Fan Noli became the new Premier. Fan Noli was apparently a sincere idealist and patriot, but his government—while it succeeded in balancing the budget—neglected to reorganize the army and did not show great skill in the practical business of ruling. With Jugoslav help Zogu launched a counter-revolution, entered Tirana on Christmas Eve, 1924, and assumed power as dictator and commander-in-chief. In January a rump national assembly met at Tirana to proclaim a republic—a Council of Regency had existed prior to this time—and on January 31, 1925 Ahmed Zogu was elected President for a period of seven years. Less than four years later, on September 1, 1928, he had himself proclaimed "Zog I, King of the Albanians."⁷

Despite the fact that Zogu's return to power was effected partly with Jugoslav aid, his rule has coincided with the growth of Italy's influence in Albania. This influence dates back to pre-war days, but has been greatly extended since the autumn of 1920. On Au-

gust 2, 1920 Italy, forced to evacuate Valona, signed an agreement with the Albanian provisional government which marked the beginning of a new Italian policy. Italy renounced its territorial pretensions and undertook to use its influence to obtain recognition by the powers of Albania's independence within the 1913 frontiers, but reserved full freedom of action in the event that any state should threaten Valona or the integrity of the country.⁸ A further step toward increasing Italian influence was taken in a declaration of November 9, 1921 by the Allied Conference of Ambassadors.⁹ This declaration provided that should Albania's integrity be threatened, the matter would be brought before the Council of the League, where the representatives of the powers signing the declaration—Great Britain, France, Italy, and Japan—would recommend that any necessary measures of intervention be entrusted to Italy since "any modification in the frontiers of Albania constitutes a danger for the strategic safety of Italy."¹⁰

During the next few years, as the following pages will show, Albania made vain attempts to secure economic aid from the League of Nations. When these efforts failed, Albania again turned to Italy. In the Pact of Tirana of November 27, 1926, the two governments agreed to collaborate in maintaining the *status quo* of Albania. A year later, on November 22, 1927, they signed a defensive alliance which was to run for twenty years and, if not denounced, was to be automatically renewed for another twenty years.¹¹ Both of these agreements worked to the advantage of the Zogu government. The Pact of Tirana followed a serious revolutionary threat in Albania in 1926; the Treaty of Alliance of 1927 was followed by Zogu's elevation to the throne in 1928. Nevertheless, King Zogu has not become an Italian puppet. Thus, contrary to Italian wishes, he refused to renew the Pact of Tirana upon its expiration on November 27, 1931.¹²

After the war, Albania was confronted with the necessity of establishing its independence, installing a system of administration, and solving pressing economic problems.¹³ It is obvious now, as it was in 1922,

8. *Ibid.*, p. 317-23.

9. *League of Nations Treaty Series*, Vol. XII, p. 381 ff; cf. also "Albania: The Problem of the Adriatic," cited.

10. *League of Nations Treaty Series*, Vol. LXIV, p. 341 ff. An exchange of notes specified that in the event of war the allied forces in Albania were to be commanded by an Albanian, and in Italy by an Italian.

11. William Martin, *Journal de Genève*, December 29 and 31, 1931; cf. also Daniel Ravina, "Zogu I, König der Albaner," *Zeitschrift für Politik*, XXI, October-November, 1931, p. 495-99.

12. League of Nations, "The Economic and Financial Situation of Albania," by Professor Albert Calmès of Luxembourg, Annex to the Report presented to the Council by the Financial Committee of the Provisional Economic and Financial Committee on its Eighth Session (Geneva, September 1922). Cf. also International Chamber of Commerce, Economic Group for Albania, *Economic Situation of Albania*, Fifth International Congress, Amsterdam, July 8-13, 1929, p. 3-4.

5. Great Britain, Foreign Office, *British and Foreign State Papers*, Vol. CXII (1919), p. 975.

6. Cf. "Albania: The Problem of the Adriatic," Foreign Policy Association, *Information Service*, Vol. III, No. 8, June 22, 1927.

7. Swire, *Albania*, cited, Chaps. IX, X, XII.

that the very existence of the new state of Albania after the war—its internal cohesion and its ability to maintain its territorial integrity and independence—was conditioned on its economic development. If Albania was not to be disrupted, roads, bridges and ports had to be built; swamps drained; and public health services, schools, police and military protection established. All these activities called for large investments of capital, which Albania did not have at its disposal. The country was desperately in need of foreign financial support, and effective guarantees of its frontiers—always subject to attack by *comitadji* raids.¹³ For these two forms of assistance, Albania looked first to the League.

THE LEAGUE AND ALBANIA'S FINANCIAL PROBLEM

After the Conference of Ambassadors had finally succeeded in reaching its decision of November 9, 1921, which confirmed Albania's 1913 frontiers, a Committee of Inquiry appointed by the League proceeded to Albania to observe conditions and adjust border difficulties. In their general report¹⁴ the Commissioners emphasized that "a free and independent Albania is an essential condition of tranquillity and peace in the Balkans," that the constant risk of internal disturbances and foreign complications could only be obviated when Albania had attained a higher degree of political stability and economic development, and that this in turn depended on a long list of improvements enumerated in the report. "Albania," said the report, "will need not only competent advisers, but also foreign capital." The requisite advice and economic support should be disinterested, and therefore "the League of Nations, which enjoys an indisputable prestige in Albania, would appear to be the organ best fitted to give this support."

In compliance with the repeated requests of the Albanian government and in accordance with the recommendations of the Committee of Inquiry, the League Council decided that one member of the Committee, Professor Sederholm, should remain in Albania pending the arrival of a financial adviser.¹⁵ Meanwhile, in July 1922, the League sent Professor Calmès of Luxemburg to study the economic and financial situation of Albania. His report, presented in September, outlined a program of development. A foreign loan of about \$22,000,000, Professor Calmès said, would be of great help to Al-

bania and would contribute to political stability in the Balkans; due to the existing situation in Europe, however, he believed that Albania would probably find it useless to hope for the support of foreign capital. Credit, he further admonished the Albanians, meant confidence, and there is no confidence without security. External security would be guaranteed by the League of Nations, but "security within depends solely on the political wisdom of the Albanians themselves."¹⁶

Short of a slow, difficult period of development, punctuated by political crises which would inevitably rupture the precarious peace of the Balkans, there was only one way out of this vicious circle—consistent economic support from outside. In the minds of many observers it now seems hardly open to question that the disinterested financing of Albania through the League of Nations would have been a worthwhile investment in Balkan peace.

Albanian leaders at first had great confidence in the League of Nations and were hopeful of obtaining economic support through Geneva. The government asked the League Commissioner, Professor Sederholm, to request League assistance in raising an external loan for Albania, and declared its willingness "to submit to any control the League may decide upon."¹⁷ Albania was prepared at that time to place itself in the hands of the League for the sake of the funds and technical assistance it desperately needed. The League, however, did not undertake this task.¹⁸ Its failure to act may be attributed to the unsettled financial state of Europe, which made the flotation of a loan extremely difficult; lack of financial experience, since acquired as a result of nine loans granted under League auspices to Austria, Hungary, Greece, Bulgaria, Estonia and Danzig;¹⁹ and the political jealousies of the powers with respect to Albania.

The League, nevertheless, acceded to Albania's request for the nomination of a financial adviser,²⁰ and appointed Mr. J. D. Hunger of Holland to the post. Mr. Hunger began his work in June 1923, and proposed

16. Calmès, "The Economic and Financial Situation of Albania," cited, p. 30-31. Cf. also League of Nations, *Official Journal*, January 1923, p. 113-17.

18. Cf. *ibid.*, report of Professor Sederholm, dated December 18, 1922.

19. "Had that organization [the League] acted with less trepidation and caution, and with more practical activity, Albania would have been not a danger point, but a pillar of security and stability in the Balkan peninsula." (Swire, *Albania*, cited, p. 438.)

20. League of Nations, *Work and Functions of the Financial Committee*, C.567.M.226.1230.II.

21. It took the League one year to select the adviser, in spite of frequent requests from Albania to expedite matters. (League of Nations, *Official Journal*, June 1922, p. 523, 535; November 1922, p. 1209; March 1923, p. 397-9; June 1923, p. 560, 538; *Records of the Fourth Assembly*, 1923, plenary sessions, p. 245, 337.)

13. The most frequent frontier violations occurred on the Jugoslav border in the north. In 1921 one of the sharpest rebukes ever addressed by the League of Nations to a member state directed Jugoslavia to desist from aggressive action in northern Albania. (League of Nations, *Official Journal*, December 1921, p. 1182 ff., 1192-93.)

14. League of Nations, *Official Journal*, June 1922, p. 572-82.

15. *Ibid.*, p. 535.

various sensible but drastic measures of economy, taxation and reorganization calculated to balance the budget. The Albanian government, however, showed little disposition to act on his advice. Mr. Hunger, like other experts before him, recognized the immediate need of Albania for a bank of issue and attempted to mobilize enough foreign capital for its creation. Draft statutes for an Albanian national bank were drawn up with the assistance of the Financial Committee of the League of Nations at its September session in 1923. The plan provided for an internationally subscribed capital of one million dollars.²² As a result of the unsettled situation in southeastern Europe, capital was pledged but slowly, and the project failed to materialize.²³ According to an Italian source, the Financial Committee of the League, having invited member states to participate, received favorable responses only from Italy, Belgium, and Switzerland. The committee thereupon decided that it would be best to leave the initiative exclusively in the hands of the Italian group.²⁴

Meanwhile, Mr. Hunger's proposed internal reforms were making no progress, political unrest and famine were rife in Albania, and the government's financial outlook grew steadily worse. On March 1, 1924 the Albanian government denounced the contract with its financial adviser, alleging that it took this step solely for reasons of economy, since its modest budget was unduly burdened by his high salary.²⁵ The government of Fan Noli, which came into power shortly after, informed the League that it regretted the manner in which Mr. Hunger's contract had

been cancelled by the preceding government, but that due to the economies which it was forced to make it would not be in a position to reappoint him. The new government, however, actually adopted many of Mr. Hunger's recommendations and succeeded, at least nominally, in balancing the budget.²⁶

In September 1924 Fan Noli again took occasion to declare at Geneva that the League might do much to promote peace in the Balkans by granting a loan to Albania, but caustically added that his country had little to hope for from the League—"only words, words, words, full of sound and fury, signifying nothing."²⁷ A month later Ahmed Zogu was back in power, and this young *Realpolitiker*, seeking to lay a foundation for the economic development and internal stability of his country—and, incidentally, for the consolidation of his own rule—turned to Italy for the necessary resources. He seemed willing, for the time being at least, to pay the inevitable price of financial and political dependence. Since 1924 the financial problems of Albania have been discussed not in Geneva, but in Rome.

As Professor Sederholm pointed out in his final report,²⁸ other Balkan states at the time they achieved independence "generally found some Great Power able and willing to befriend them and to afford them financial assistance." Similarly Ahmed Zogu, obtaining no help from the League, entered into negotiations with the Fascist government and on March 15, 1925 concluded with an Italian financial group an agreement which had far-reaching consequences.

ALBANIA TURNS TO ITALY FOR ASSISTANCE

CONVENTION OF MARCH 15, 1925

The convention of March 15, 1925,²⁹ which was to run for 50 years, was concluded by a representative of the Albanian state and "His Excellency, Mario Alberti, as representative of the financial group recommended by the Italian government."³⁰ This group undertook to establish the National Bank of Albania—*Banca Nazionale d'Albania*, sometimes referred to as the *Banca Nazionale d'Albania*—with a nominal capital of 12,500,000 gold francs (\$2,500,000), divided into 495,000 ordinary shares at a face value of 25 francs each, and

22. League of Nations, *Official Journal*, Report of Mr. Hunger to the League Council, January 1924, p. 162-68.

23. *Ibid.*, and *Official Journal*, May 1924, p. 762-63.

24. Avv. Adolfo Gulinelli, "L'Azione Italiana in Albania," *Revista di Politica Economica*, 1927, Nos. 8-9. Cf. also speech of Signor Mario Alberti on March 25, 1928. (*Annual Report of the Banca Nazionale d'Albania* for 1927, p. 18.)

25. For the protest of the Netherlands government against Mr. Hunger's dismissal, cf. League of Nations, *Official Journal*, July 1924, p. 1018. (Letter from the Netherlands Minister at Berne to the Secretary-General of the League.)

100,000 founders' shares at a face value of 1.25 francs each. Albanian citizens were to have a right to participate to the extent of 49 per cent of the share capital. The Bank was to have its administrative seat in the capital of Albania; its operations, however, are actually directed from Rome. The Bank was to have the exclusive privilege of issuing paper currency, and was to supervise the coinage of metallic money, the profits from which were to be divided equally between the state and the Bank. It was to receive government deposits and to act as treasury agent, and was to have the right to negotiate

26. *Ibid.*, October 1924, p. 1928; Swire, *Albania*, cited, p. 444.

27. League of Nations, *Records of the Fifth Assembly*, 1924, plenary sessions, p. 101.

28. League of Nations, *Official Journal*, May 1923, p. 504-10.

29. Albanian and Italian texts in the Albanian *Official Gazette* (Republika Shqiptare, *Fletorja Zyrtare*), Vol. IV, No. 40, 1925, p. 3-8.

30. Signor Alberti of the *Credito Italiano* is a leading Italian banker, has represented his country in numerous international financial negotiations, and was president of the Commission of Control set up by the League of Nations in Austria. He holds the honorary rank of Minister Plenipotentiary.

government and municipal loans. Provision was made for Albanian representation in the management, although the Italians were always to have the deciding vote. The Albanian state was to receive 10 per cent of the net annual profits. The Bank concession was exclusive and irrevocable.

Furthermore, within a month after the initiation of its own activities, the Bank undertook to form a company to be known as *La Società per lo sviluppo economico dell'Albania* (Company for the Economic Development of Albania, commonly referred to as the S.V.E.A.). The S.V.E.A.'s capital of 15,000,000 lire (about \$750,000) was to be divided into 150,000 ordinary shares, of which 10,000 were to be assigned gratuitously to the Albanian government. This new company undertook to procure a loan of \$10,000,000 for Albania, to be used exclusively for public works—roads, drainage of swamps, agricultural development, and construction of ports. The repayment of capital and interest was to be guaranteed by a lien on the Albanian customs duties and on the state monopolies of salt, cigarettes and matches. The S.V.E.A., or the affiliated companies which it might organize, was given the right to submit bids for the execution of public works and, conditions being equal, was to be accorded preference in the awarding of contracts. The Bank, the S.V.E.A. and the affiliated companies undertook to employ in their work as large a proportion of Albanians as possible—50 per cent was mentioned for certain operations, but the requirement was not rigid. Disputes regarding the application of the convention were to be referred to a court of arbitration, each party to name one member and the third to be selected by these two or by the president of the Supreme Court of Switzerland.

Under the terms of the 1925 convention, the *Banca Nazionale d'Albania*³¹ was formally constituted in Rome on September 2, 1925, in the presence of the Italian and Albanian Ministers of Finance, the Jugoslav Minister in Rome, and Signor Alberti of the Italian financial group.³² It has been reported that Great Britain and Jugoslavia protested against the exclusively Italo-Albanian character of the original plans and thereby obtained a right of participation for the nationals of other interested states.³³ It may also be suggested, however, that Italy, compelled to borrow abroad for its own financial needs, was not averse to admitting foreign capital to the enterprise so long as Italian citizens retained control. Practically all the

shares set aside for the Albanian interests participating in the Bank—49 per cent of the total capital—were actually bought for Italian account.³⁴ The voting power represented in the shareholders' meeting of March 20, 1930 was actually distributed as follows: Italian banks held 225,000 shares out of a total of 579,216;³⁵ Jugoslav banks, 50,000; other foreign banks, 75,000; while the balance was held by private shareholders³⁶ and officers of the Bank.

The Bank has established a sound gold-standard currency in Albania, and while Albanians were at first reluctant to accept paper money, the increasing circulation of banknotes shows that this prejudice is being gradually overcome. The notes are printed in Albanian and Italian, and the new gold, silver, nickel and bronze coins minted by the Bank resemble those of Italy in appearance. Commercial undertakings have been stimulated by the establishment of general warehouses under the direction of a company founded by the Bank. Agricultural development is encouraged by the provision of credits. The spread of the banking customs of more developed countries, coupled with the legislative reforms which the Bank is sponsoring, also tend to promote Albanian economic progress.³⁷

THE S. V. E. A. AND THE PUBLIC WORKS LOAN³⁸

The second part of the Convention of 1925 had provided for the creation by the Italian financial group of the development company known as the S.V.E.A. and for the flotation of a \$10,000,000 public works loan. The details of this loan were set forth in a further convention of May 29, 1925, and an executive accord of July 26, 1925 between the Albanian government and the S.V.E.A.³⁹ The bonds,

31. *Frankfurter Zeitung*, May 5, 1926.

35. A total of 595,000 ordinary and founders' shares are outstanding, but some of them were not represented at the meeting. The *Credito Italiano* holds the 100,000 founders' shares. (*Annual Report of the Banca Nazionale d'Albania for 1929*, p. 8-10.)

36. These shares were mostly from the original Albanian allotments. Owing to the failure of Albanians to take up their quota, these shares are largely in Italian hands. (*Near East Yearbook and Who's Who*, 1931-1932, p. 39.)

38. Cf. *Report Presented to the International Chamber of Commerce, Economic Group for Albania*, at the Fourth Congress, Stockholm (1927), p. 2-3; also *Economic Situation of Albania*, cited, p. 28-29.

39. This section is based largely on the following annual reports and other documents published by the S.V.E.A.: S.V.E.A., *Relazione sul Bilancio al 31 Dicembre 1926*, presented at the meeting of the shareholders held on April 27, 1927; *Relazione sul Bilancio al 31 Dicembre 1927*, presented at the meeting of shareholders held on September 18, 1928; *Relazione sulle Opere Eseguite al 31 Dicembre 1929*, presented at the meeting of shareholders held on March 21, 1930; *Verbale della Assemblea Generale degli Azionisti*, March 21, 1930.

40. Although technically independent corporations, the S.V.E.A. and the *Banca Nazionale d'Albania* were organized by the Italian financial group headed by Signor Alberti, and have many officers in common. Signor Alberti was the Italian signatory of the May 29, 1925 convention, as well as of the earlier convention dealing with the Bank.

The text of the convention of May 29, 1925 may be found in the July 31, 1925 issue of the *Albanian Official Gazette*, Vol. IV, No. 40, cited, and in the appendix to the 1926 report of the S.V.E.A., which also contains the executive accord of July 26, 1925.

31. This section is based largely on the annual reports of the *Banca Nazionale d'Albania*. The reports used include those for 1926 (in Italian), 1927 (in English), 1928 (in English), and for 1929 (in Italian).

32. Swire, *Albania*, cited, p. 46.

33. *Vossische Zeitung*, July 5, 1925.

as finally issued in November 1925, carried a rate of interest of 7½ per cent and were issued at 75. Charges were 4 per cent, which made the effective emission figure 71. Since it was paying 7½ per cent on a nominal debt of 70,500,000, the actual interest cost to Albania worked out at just over 8 per cent.

Furthermore, as a result of the fact that the Italian government agreed to guarantee the service of the loan, the Italian financial group has been able to grant one moratorium after another, with the consequence that up to 1929 the Albanian government had not made any disbursements on account of interest or principal.⁴³ Until the new loan agreement of 1931, the Fascist government was paying the bondholders, while interest and sinking fund in arrears were accumulating to the charge of the Albanian government.

The S.V.E.A. often points in its annual reports to the favorable terms given Albania in this loan as proof of Italian friendship, and contrasts the lien on customs duties and taxes provided by its contract with the allegedly more stringent provisions — i.e., for financial control — of the League of Nations loans to Hungary, Greece and other countries.⁴⁴ It should be noted, however, that the League in granting loans has to take their financial soundness into consideration, while the Italian loans to Albania are political in nature and take little account of ordinary financial calculations. In any case, control exercised by Italian diplomats and Italian civil and military advisers⁴⁵ is not unimportant, even if organized in a less formal manner than that imposed by the League.

CHARACTER OF ITALY'S ALBANIAN INVESTMENTS

There can be little doubt that the Italian capital represented in the *Banca Nazionale d'Albania* and the S.V.E.A. has entered Albania not for economic reasons, but as an instrument of Italian diplomacy. These organizations do not regard themselves as ordinary business enterprises. Speaking to a meeting of stockholders, the president of the S.V.E.A., Vincenzo Lojacono, declared:

"Due to the special character of our company, springing from and living in the orbit of a happy and much vaster political conception of the relations between Italy and Albania, our attainments unfold themselves in a sphere so superior and so foreign to the internal results of a balance sheet that it is a legitimate wish on your part to prefer to hear what our activities have contributed to

43. *Economic Situation of Albania*, cited, p. 8. The writer was informed at Tirana in April 1931 that the latest agreement called for the repayment of one million francs in 1930 and two million in 1931; that two million francs of this sum had already been paid; and that negotiations for another moratorium and a general refunding arrangement were pending.

44. Cf. S.V.E.A. *Report for 1926*, p. 44-45.

45. Cf. p. 86.

the development of the program of Italo-Albanian collaboration."⁴⁶

The ceremony at the opening of the *Banca Nazionale* in its new headquarters at Durazzo was attended by Ministers, representatives of the diplomatic corps, and by the director-general of the Bank of Italy.⁴⁷

Still more convincing proof that Italian investments in Albania are not ordinary economic undertakings is provided by certain formal decrees of the Italian government, which, after having accorded large tax exemptions in favor of the loan to Albania,⁴⁸ ended by providing for a guarantee of the yearly payments from the Royal Treasury.⁴⁹

THE 1931 LOAN AGREEMENT

Any remaining doubts regarding the political rather than economic purposes of Italian investments in Albania were removed by the loan agreement concluded at Tirana on June 24, 1931. In this agreement the Italian government abandoned all indirect methods and arranged to advance funds to Albania not through the mediation of bankers, but in its own name.

The terms of the 1931 agreement were embodied in an exchange of notes which provided for a series of annual loans from Italy to Albania extending over a period of ten years and limited to a maximum of \$2,000,000 in any one year. The loans were to draw no interest, and the date and manner of repayment were to depend on the financial situation of Albania. A commission composed of two Albanians and two Italians was to supervise the expenditure of the funds so received, devoting them mainly to public works, the development of national economy, and the improvement of education. Albania agreed to request the services of the following advisers (*organizzatori*) approved by the Italian government: one at the Ministry of Finance, two at the Ministry of Public Works, four at the Ministry of National Economy, and one for national education. Finally, Italy made it clear that the annual payments to Albania would depend on the "continuation of full and sincere technical and political collaboration between the two governments."

The financial operations of 1925 were a prelude to the Pact of Tirana, 1926, and to the Treaty of Alliance concluded one year later. Although the negotiations leading up to these significant treaties are veiled in secre-

46. S.V.E.A., *Relazione sulle Opere Eseguite al 31 Dicembre 1929*, presented to the assembly of stockholders on March 21, 1930, p. 5.

47. *Banca Nazionale d'Albania, Discorso pronunciato dal Presidente per l'inaugurazione della sede definitiva della Banca in Durazzo*, November 9, 1928.

48. Decree No. 631, dated April 3, 1926, published in the *Gazzetta Ufficiale* of Italy, No. 93, April 22, 1926, and quoted in the S.V.E.A. *Report for 1926*, p. 7.

49. Decree No. 249, dated March 3, 1927, published in the *Gazzetta Ufficiale*, No. 55, March 8, 1927, and quoted in the S.V.E.A. *Report for 1926*, p. 7-8.

cy, apparently well-founded reports would indicate that from the start Italy was consciously pursuing definite objectives which amounted to control of the army, the finances, and the foreign policy of Albania. Much consternation was caused in Albania by the action of the Italian Minister, Baron Aloisi, at the end of June 1926.

"It was alleged that he had presented to the Albanian Government, in a manner which was interpreted as a virtual ultimatum, proposals which were briefly as follows: to place the Albanian army and gendarmerie under Italian instructors; to accept the control of Italy in matters of finance and national economy; to place the whole of Albania under the protection of Italy."

It was further reported that these proposals were categorically rejected by the Albanian government, which communicated them to the British Minister, and that to an inquiry by the British Foreign Office the Italian government replied that its representative in Tirana had misunderstood and exceeded his instructions. "It is denied in Italian official circles that any definite proposals were made at this period, although negotiations were in progress in connection with the Treaty subsequently concluded."⁵³

If these alleged proposals did represent Italy's objectives in 1926, practically all of them have since been attained. While the gendarmerie is directed by a small staff of British officers, the Albanian army is trained by Italian instructors.⁵⁴ In addition to the Italian military mission, numbering about 100, there are also Italian civil advisers in Albania whose total number in May 1931 was estimated at about 120. Most of the latter are engineers, but even before the conclusion of the new loan agreement Italian financial experts and advisers had been attached to the various Ministries.⁵⁵ The influence of military and civil advisers, the lien on custom duties, salt, cigarette and match monopolies provided in the loan convention of 1925, the manifold activities of the *Banca Nazionale d'Albania* and the S.V.E.A., as well as the provisions of the loan agreement of 1931, give Italy a very real control not only over Albania's finances but over its whole national economy. Finally, by the Treaty of Alliance, Albania has placed itself under the protection of Italy, for an alliance between states of unequal strength can have no other meaning.

CONCLUSION

It is sometimes taken for granted that the hidden hand of capitalist enterprise, or some less specific economic force—"population pressure," for example—is behind the foreign policy of every great power which extends its influence over a weaker country. Such an interpretation of Italian penetration in Albania would be erroneous. Albania does not constitute an attractive sphere for economic expansion. It is probable that "in many parts of the Italian colonial empire colonizing activities could be carried out with a smaller outlay of capital and greater chance of success than in Albania."⁵⁶ Italy is not "exploiting" poverty-stricken Albania in an economic sense. At the present moment it would be more in accord with the economic facts to say that Albania is exploiting Italy, for Albania is receiving Italian capital on which no responsible banker would expect an economic profit. What Italy has done is to assure itself of the political and military control of Albania by judicious loans and investments instead of by resort to armed force. Italian policy in Albania is based on the recognition that it is cheaper to subsidize and strengthen an independent, but "allied" Albania than to conquer, garrison and ad-

minister the country in the face of inevitable hostility on the part of a warlike people.⁵⁷ To an Italian it seems indisputable that Italy must control Albania in order to guard the entrance to the Adriatic sea and thus defend its own coast. One can understand the Italian point of view and yet be concerned over the effect of this policy on the peace of Europe, for it undoubtedly sharpens existing conflicts in the Balkans.

The problem of Albania after the World War presented a dilemma: either financial support from an interested power, such as other Balkan states had received at an earlier date, or a protracted period of instability due to lack of capital for economic and political development. The dilemma might have been resolved had a disinterested international organization been able to finance Albania through a rather long period of construction, but it would have been necessary for this organization to advance funds with slight prospect of repayment on economically profitable terms. Italy found it expedient to make uneconomic loans to Albania for the sake of political advantages which it deemed important to its national security—a course which no international organization is yet in a position to follow for the sake of promoting general peace.

53. Swire, *Albania*, cited, p. 475-76.

54. The British gendarmerie mission is composed of former officers of the British army, in no way responsible to the British government, and is paid by Albania. The Italian military instructors are detailed for service in Albania from the Italian army, and in consequence continue to draw their pay from their own authorities. (Swire, *Albania*, cited, p. 506.)

55. Cf. Joseph März, "Albanien 1931," *Zeitschrift für Politik*, XXI, October-November, 1931, p. 488-95.

56. Dr. Gerhard Schacher, *Der Balkan und Seine Wirtschaftlichen Kräfte* (Stuttgart, 1930), p. 131.

57. Italian spokesmen often draw an analogy between Italy's policy in Albania and the policy of the United States in certain Caribbean countries. Comparisons have also been made with the British policy in Portugal.